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No. 00-135

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

SAMSUNG ELECTRONICS CO., LTD.,
SAMSUNG ELECTRONICS AMERICA, INC.,
AND SAMSUNG SEMICONDUCTOR, INC.,
Petitioners,

v.

SEMICONDUCTOR ENERGY LABORATORY CO., LTD.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals For the Federal Circuit

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

1. Whether proven misrepresentations in a series of related patent applications made as part of an intentional scheme to deceive the United States Patent and Trademark Office ("PTO") can constitute mail fraud under 18 U.S.C. § 1341 on the theory that a patent which has not yet issued from the PTO is "property" of which the United States is deprived when it issues the patent.[1]

2. Whether federal patent law preempts New Jersey RICO claims when the state law RICO claims are based on the predicate act of offering a false instrument to the PTO for filing, and liability under the state law RICO offense requires proof of additional elements beyond those that were required to establish the inequitable conduct defense to patent infringement liability.

3. Whether the federal mail fraud statute, 18 U.S.C. § 1341, requires "convergence," *i.e.*, that the misrepresentations in question be directed at the target of the fraud.

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[1] The Court granted a writ of certiorari to the Fifth Circuit in *Cleveland v. United States* on the related question "Can alleged false statements or omissions in applications for state licenses be the basis for federal mail or wire fraud charges, on the theory that a license that has not yet issued constitutes 'property' of the State, of which the State is deprived when it issues the license?" Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Fifth Circuit, *Cleveland v. United States* (filed in the Supreme Court Nov. 8, 1999) (No. 99-804).

CORPORATE DISCLOSURE STATEMENT PURSUANT TO RULE 29.6

Respondent Semiconductor Energy Laboratory Co., Ltd. ("SEL") has not issued shares to the public. It has a parent company that has issued shares to the public, the full name of which is TDK Corporation, a corporation of Japan. SEL has no other parent companies, subsidiaries, or affiliates that have issued shares to the public.

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IN THE

Supreme Court of the United States

No. 00-138

SAMSUNG ELECTRONICS CO., LTD.,
SAMSUNG ELECTRONICS AMERICA, INC.,
AND SAMSUNG SEMICONDUCTOR, INC.,
Petitioners,

v.

SEMICONDUCTOR ENERGY LABORATORY CO., LTD.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals For the Federal Circuit

BRIEF IN OPPOSITION

INTRODUCTION

The patent infringement lawsuit brought by Semiconductor Energy Laboratory Co., Ltd. ("SEL") against Samsung Electronics and its U.S. subsidiaries ("Samsung") is presented to this Court on cross-petitions for certiorari. SEL seeks review of the Federal Circuit's holding that its '636 patent (U.S. Patent No. 5,543,636) is unenforceable for inequitable conduct even though SEL complied with the PTO's 1992 Rules, promulgated after notice and comment, which require that applicants provide a copy of a foreign language reference, any pre-existing full or partial translation of it, a concise explanation of its relevance as the inventor perceived

it, and nothing else.[2] Samsung now seeks review of its dismissed RICO counterclaims. Samsung seeks, *inter alia*, recovery of three times the legal fees that it incurred in the patent litigation, even though it was denied single recovery of those fees by the district court judge who held against SEL on inequitable conduct.[3]

SEL's petition should be granted because the decision below raises important issues of deference to regulatory policy and due process that should be resolved to prevent unfounded fraud charges from stifling the patent system. Also, this Court has agreed to review a "fraud on the FDA" case, *Buckman Co. v. Plaintiffs' Legal Committee*, No. 98-1768, that the Solicitor General has warned could otherwise expose all FDA applicants to uncertain duties that could potentially "distort" their behavior before the FDA.[4] The same is true for SEL and the many patent applicants who must present foreign language references to the PTO for consideration by the patent examiner. The decision below leaves these applicants without reliable regulatory guidance as to how to avoid the risk of a successful inequitable conduct challenge to their valuable patents.

There is only one conceivable reason for reviewing the eminently sound dismissal of Samsung's attempt to use RICO statutes to obtain treble attorney's fees in a case in which it could not win even single fees and expenses from the judge who ruled for it on the inequitable conduct issue. The sole reason for review is that this Court has under review *Cleveland v. United States,* No. 99-804, concerning whether a

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[2] Petition for Writ of Certiorari, *Semiconductor Energy Laboratory Co., Ltd. v. Samsung Electronics Co. Ltd., et al.* (filed in the Supreme Court July 21, 2000) (00-127).

[3] The district court order denying fees is attached as Appendix A to this brief in opposition.

[4] Brief for the United States as Amicus Curiae, No. 98-1768, p. 18 (June 2000).

firm can commit RICO predicate mail fraud in obtaining a license or franchise that is valuable in the grantee's possession but which has no monetary value prior to governmental action in issuing the license.

Cleveland will have been argued and submitted for decision before Samsung's RICO question would be briefed. Thus, the RICO issue in this case might simply be held for later ruling. We submit, however, that the RICO mail fraud issue should not be addressed in the context of this case and that Samsung's petition should be rejected at this time. We explain our reasons after we have set forth our counterstatement of the facts.

We next explain that if this Court grants Samsung's petition, then it should certainly do so in conjunction with granting SEL's petition (No. 00-127). Patentees threatened with RICO treble damage counterclaims if they seek to enforce their patents need to know that their compliance with PTO Rules will protect them, lest they be deterred from disclosing inventions and enforcing patents. Last, we show that neither of Samsung's questions relating to its rejected New Jersey RICO counterclaims and direct injury claim presents an issue worthy of this Court's consideration.

COUNTERSTATEMENT OF THE FACTS

SEL sued Samsung on the basis of three semiconductor patents, eventually deciding to pursue just one of the three patents. Samsung sought to invalidate the key '636 patent on non-enablement and best mode grounds, but its motions for summary judgment on these grounds were denied. Samsung also sought summary judgment on the ground that the '636 patent was an obvious combination of silicon purification and semiconductor structure teachings, but the district court (Cacheris, J.) denied that motion.

Samsung counterclaimed on antitrust (*Walker Process*[5] and sham litigation) grounds. The district court granted summary judgment in SEL's favor on the ground that Samsung could not show *Walker Process* fraud or sham litigation. Pet. App. 105a-115a. On the same day, the district court granted summary judgment in SEL's favor on Samsung's RICO counterclaim, stressing that SEL had committed no predicate acts. Pet. App. 36a-43a.

In explanation of its ruling rejecting Samsung's antitrust counterclaim, the district court (Cacheris, J.) wrote that:

> The evidence indicates that SEL's initiation of an infringement lawsuit will detrimentally affect competition only if SEL succeeds. While competition may be reduced if SEL successfully asserts infringement claims, such success can occur only if SEL demonstrates, or in case of settlement, if Samsung accepts that the patent or patents at issue are valid and enforceable. If SEL proves or Samsung agrees that the patents are valid and enforceable, then Samsung's *Walker Process* counterclaim must fail.
>
> Moreover, the only injury claimed by Samsung as a result of this lawsuit is that it suffered expenses defending itself and in its efforts to design substitutes for the patented products. However, as courts frequently state, the Sherman Act is designed to protect competition, not competitors. *See, e.g., Abcor Corp. v. AM Int'l, Inc.*, 916 F.2d 924, 931 (4th Cir. 1990) (citing *Brown Shoe Co. v. United States*, 370 U.S. 294 (1962)). While Samsung's challenge to SEL's infringement claims may be expensive, its challenge and efforts to design alternative products actually enhance competition.
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> * * *

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[5] *Walker Process Equip., Inc. v. Food Mach. Chem. Corp.*, 382 U.S. 172, 177 (1965).

> After reviewing the arguments regarding Samsung's allegations that SEL made affirmative misrepresentations to the PTO, this Court finds that SEL provides reasonable (although not necessarily conclusive) defenses to those allegations. In light of the explanations SEL offers for its conduct before the PTO, a jury could not reasonably find that the lawsuit is objectively baseless. As a result, Samsung's claim that the infringement suit is "sham litigation" under *Walker Process* is without merit, and SEL is entitled to summary judgment on this issue.

Pet. App. 112-13a.

In rejecting Samsung's RICO counterclaim, Judge Cacheris concluded that SEL's conduct before the PTO did not constitute RICO fraud or deprive the United States of money or property. Pet. App. 40a. He also concluded that Samsung had "appropriate remedies for the type of misconduct from which Samsung seeks to recover in its RICO claims." Pet. App. 40a-41a. These consisted of the opportunity to obtain a judgment rendering SEL's '636 patent unenforceable, as well as the opportunity to recover its attorney's fees under the Patent Statute (35 U.S.C. § 285) if it prevailed. *Id.*

With its antitrust and RICO counterclaims dismissed, Samsung concentrated on its inequitable conduct allegations. It showed *no* false statements[6] or withheld references in connection with prosecution of the '636 patent, but it convinced the district court that failure to translate fully[7] or

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[6] It is undisputed that SEL's concise explanation was accurate. *See* Pet. App. 11a ("SEL also underscores the fact that it meticulously complied with 37 C.F.R. § 1.98(a), (c) (1995) by providing an accurate, concise explanation of the Canon reference").

[7] SEL had no full translation in its possession. It had a pre-existing partial translation (prepared in connection with a different patent prosecution), which it submitted as required by PTO Rule. It is undisputed that the partial translation was accurate.

sufficiently explain in English a *submitted* Japanese reference constituted "constructive withholding" of the reference from the PTO, such that SEL had failed to be sufficiently candid to the PTO so that a judge could decide on equity grounds not to enforce its '636 patent.

Having won inequitable conduct on a theory it did not plead[8] but asserted at or just before the inequitable conduct hearing, Samsung asked Judge Ellis to award $6 million in attorney's fees on the ground that SEL's failure to translate fully the submitted Japanese language reference made this an exceptional case under 35 U.S.C. § 285 of the Patent Act. Judge Ellis denied Samsung's motion for fees and expenses summarily, without awaiting an opposition from SEL. Opp. App. A.

Samsung noticed an appeal from its *Walker Process*, sham litigation, and RICO losses, but later dropped its antitrust appeal and argued only its RICO points on appeal. It did *not* appeal the district court's ruling denying its application for attorney's fees under 35 U.S.C. § 285.

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[8] Previously, Samsung had pled that the untranslated Canon '968 disclosed a thin film transistor ("TFT") with a sandwich structure that should have been brought to the attention of the PTO. The problem with this theory was that the patent itself states that the TFT structure was conventional. Samsung made a point out of the cleaning instruction in the untranslated Canon '968 for the first time shortly before the inequitable conduct hearing. That developed into the "key" similarity in the untranslated Canon reference that would carry the day for Samsung.

I. THE RICO MAIL FRAUD "PROPERTY" ISSUE IN THE PATENT CONTEXT IS NOT PROPERLY PRESENTED IN THIS CASE BECAUSE SAMSUNG'S RICO CASE WAS UNSOUND ON MULTIPLE GROUNDS

Samsung requests that this Court determine that an accused infringer who obtains an inequitable conduct dismissal is entitled to pursue a RICO claim, seeking recovery of three times its attorney's fees and design-around expenses, even though the patentee did not commit *Walker Process* fraud or bring a sham case, and even though the fee application of the accused infringer was denied in the inequitable conduct proceeding. A victory for Samsung would mean that accused infringers who cannot prove a *Walker Process* or sham litigation case or even an "exceptional case" under 35 U.S.C. § 285 could still invoke RICO to win treble their litigation expenses from a patentee whose case survived summary judgment.

Such an expansion of RICO law makes no policy sense. To the contrary, Congress has provided a direct statutory remedy (35 U.S.C. § 285) to address abusive patent litigation. It seems unlikely that Congress intended RICO to provide an alternative remedy to the direct remedy provided in the Patent Act. Thus, it appears unnecessary for this Court to decide whether Samsung could satisfy the RICO predicate mail fraud "property" requirement based upon truthful representations made during a patent prosecution.[9]

Moreover, it would seem apparent that Samsung could not prove a RICO fraud claim when it fell short on its *Walker Process* and sham litigation claims, and when the patent was

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[9] It is undisputed that SEL made no affirmative misstatement in its concise, English-language explanation of the foreign language reference. SEL was found guilty of fraud because its accurate concise explanation was in the view of the courts below "too concise."

held not to be "obvious" and thus not obviously undeserved. These rulings provide SEL with significant defenses against any subsequent RICO fraud litigation.

In short, Samsung's RICO claim suffers from major defects that provide grounds for resolution independent of the question presented by Samsung. Samsung does not present an appropriate case to address the RICO issues in the patent context.

II. THE IMPACT ON THE PATENT SYSTEM COULD BE VERY SEVERE IF THIS COURT WERE TO ALLOW RICO COUNTERCLAIMS IN PURE "FRAUD ON THE PATENT OFFICE" CASES WITHOUT FIRST ADDRESSING WHETHER REASONABLE COMPLIANCE WITH PTO RULES IS A DEFENSE TO INEQUITABLE CONDUCT CHARGES

Much of the American economic miracle of the last two decades has rested on the incentives we create for invention and its disclosure. It is very important to inventors and the public that the process for obtaining patents work efficiently and well. It would become a terrible burden on that system if inventors could be exposed to costly RICO counterclaims in infringement litigation when they have obtained valuable patents in compliance with the Rules of the PTO as they understood them—indeed as any reasonable person reading the Rules would understand them—and then merely sue to enforce.

As noted above, Samsung seeks redress through RICO mainly for litigation fees and design-around expenses it incurred in defending itself in the patent litigation despite SEL's compliance with PTO Rules by submitting the reference in question (in Japanese), submitting a pre-existing partial translation of it (as required), and providing a concise explanation, which was accurate and indeed identified

material similarities between the reference and the claimed structure.[10] It thus becomes very important to examine what should be and what should not be a "fraud" on the PTO. It would be an extraordinary disincentive to inventors to disclose their inventions in return for patents if inventors came to the belief that their reasonable reliance on PTO Rules did not protect them from RICO fraud claims seeking recovery of large fees incurred in seeking to nullify their patents. Thus, if this Court is inclined to address the mail fraud "property" issue in the patent prosecution context, it certainly should address the extent to which reasonable reliance on PTO Rules and a failure to recover fees under 35 U.S.C. § 285 precludes a multiple recovery of such fees through a RICO counterclaim.

In short, if this Court decides to grant certiorari to consider the RICO "property" issue in the patent context or otherwise acts to open up the patent "property" issue, it should do so only after having granted SEL's petition (No. 00-127) so that it can provide guidance on the interrelationship between reasonable reliance by inventors (and their attorneys) on PTO Rules, their exposure to RICO liability, and the relevance of *Professional Real Estate Investors*[11] immunity to a RICO case like Samsung's.

III. THE QUESTION WHETHER SAMSUNG'S STATE RICO CLAIM WAS PREEMPTED IS NOT WORTHY OF THIS COURT'S ATTENTION

The second question presented in Samsung's petition—whether federal patent law preempts inconsistent state RICO claims—is based on Samsung's inaccurate assertion that its

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[10] *See* discussion in SEL's Petition for Writ of Certiorari, No. 00-127, p. 23, n. 23 (noting that two features cited by SEL in its concise statement were directly germane to claimed features in the '636 patent).

[11] *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993).

state RICO counterclaims included elements different from those constituting its inequitable conduct defense. The Federal Circuit correctly rejected Samsung's assertion that its New Jersey RICO counterclaims were somehow different from its inequitable conduct defense:

> Samsung's contention that its New Jersey RICO counterclaims allege additional elements not found in the federal patent law cause of action for inequitable conduct is inaccurate. Pet. App. 26a.

The Federal Circuit therefore had no difficulty in concluding that Samsung's New Jersey RICO counterclaims were preempted:

> As pleaded by Samsung, its New Jersey RICO counterclaims occupy a field identical in scope with the inequitable conduct defense. If the conduct constituting inequitable conduct, without more, could be considered predicate acts under federal or state RICO law, then every accused infringer asserting an inequitable conduct defense would also bring such a RICO counterclaim. Pet. App. 26a.
>
> We therefore reject Samsung's attempts to contort the elements of inequitable conduct to satisfy the New Jersey RICO statute, with its stated purpose of combating organized crime. *See* N.J.S.A. § 2C:41-1.1.c. Pet. App. 27a.

Samsung's "inaccurate" characterization of its New Jersey RICO counterclaims is based on its assertion that because it alleged more than the minimum necessary to establish inequitable conduct, those additional allegations "could easily satisfy the additional elements of RICO." Pet. at 23. In support, Samsung cites *only* the district court's initial *inequitable conduct* decision as demonstrating the additional elements of its New Jersey RICO counterclaims. Pet. at 22 & 23 (*citing* App. 85a). Yet Samsung identifies nothing in that inequitable conduct decision that should have been relevant *only* to its New Jersey RICO counterclaims. Samsung also

fails to note that the initial inequitable conduct decision came after the district court had granted summary judgment in SEL's favor on the New Jersey RICO counterclaims. *Compare* App. 36a (RICO summary judgment decision on March 20, 1998) *with* App. 44a (initial inequitable conduct decision issued April 15, 1998).

This Court uniformly has held that the Supremacy Clause invalidates state laws that "interfere with, or are contrary to the laws of congress, made in pursuance of the constitution. . . ." *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1, 211 (1824) (Marshall, C.J.). The principle applies in patent cases because the exclusive constitutional grant of authority to issue patents, U.S. Const. Art. 1, § 8, cl. 8, has been delegated to the United States Patent and Trademark Office, in part through regulations governing the patent application process and "the conduct of proceedings in the Office." 35 U.S.C. § 2(b)(2)(A). The Federal Circuit has recognized that principle, *see, e.g., Abbott Labs. v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1991) (state abuse of process claim preempted by federal patent law), which it correctly applied in this case. Samsung's New Jersey RICO counterclaims, based on nothing other than alleged irregularities in the prosecution of the '636 and parent patents, was properly preempted because it "was identical in scope with the inequitable conduct defense." Pet. App. 26a. Allowing state RICO claims to be based on alleged irregularities in federal PTO proceedings would impermissibly subject patent applicants to unknown and inconsistent standards imposed by judges and juries creating and applying state law.

Samsung does not present this Court with the question whether preemption is appropriate when the elements of a state RICO claim are identical to those of a federal inequitable conduct defense. Rather, it asks this Court to review the preemption decision below based upon the premise—contrary to the record—that the elements of its inequitable conduct defense and its state RICO claims were

different. Because the basis for Samsung's argument that the Federal Circuit misapplied the Supremacy Clause is demonstrably incorrect, the Court should not grant certiorari with respect to the second question presented in Samsung's petition.

IV. THE "CONVERGENCE" ISSUE WAS NOT DECIDED BELOW AND SHOULD NOT BE CONSIDERED BY THIS COURT

Samsung acknowledges that the courts below did not explicitly address the third question presented in its petition, "[w]hether the federal mail fraud statute, 18 U.S.C. § 1341, requires 'convergence,' *i.e.*, that the misrepresentations in question be directed at the target of the fraud." Pet. at 26 (asserting issue was "implicitly" decided). Nor did the Federal Circuit implicitly decide the "convergence" question.

The Federal Circuit decided Samsung's appeal of its federal RICO claim on the single ground that mail fraud to obtain a patent is not a RICO predicate act. Pet. App. 28a. In doing so, it expressly "declined to reach the correctness of the district court's holding" on alternative grounds. Pet. App. 27a, n.7. The district court neither used "convergence" as an alternative ground for its RICO holding, Pet. App. 38a-42a (district court decision), nor considered the issue at all. *Id.*

The "convergence" issue, not having been addressed by the courts below, should not be addressed by this Court.

CONCLUSION

The Court should deny Samsung's petition for certiorari on the RICO "property" issue on the ground that accused infringers should not be able to avail themselves of RICO when the patent litigation was not a sham and their application for fees under 35 U.S.C. § 285 has been denied. If the Court decides to hear Samsung's RICO "property" issue, it should do so only in conjunction with consideration

of the questions presented in SEL's pending petition (No. 00-127) so that it can address whether a patentee's reasonable reliance on PTO regulations precludes a RICO counterattack. The Court should deny certiorari on the New Jersey RICO question and on the convergence question.

Respectfully submitted,

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APPENDIX

APPENDIX

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA

Alexandria Division

[Filed Apr. 30, 1998]

C.A. No. 96-1460-A

SEMICONDUCTOR ENERGY LABORATORY CO., LTD.,
Plaintiff,

v.

SAMSUNG ELECTRONICS CO., LTD.,
SAMSUNG ELECTRONICS AMERICA, INC.,
AND SAMSUNG SEMICONDUCTOR, INC.,
Defendants.

ORDER

This matter comes before the Court on defendants' motion for an award of attorneys' fees pursuant to 35 U.S.C. § 285.

It appearing that the issues have been fully presented in defendants' brief, the Court dispenses with oral argument.

Attorneys' fees are awarded in patent cases only in "exceptional cases." 35 U.S.C. § 285.[1] Thus, "the decision to award attorneys' fees is a two-step process requiring (i) proof that a case is 'exceptional', and (ii) the district court's exercise of discretion to award attorneys' fees to a prevailing party." *Applied Med. Resources Corp. v. United States Surgical Corp.*, 967 F. Supp. 861, 865 (E.D.Va. 1997). In determining whether to grant an award of fees, courts should consider the "closeness of the case, the tactics of counsel, the flagrant or good faith character of the parties' conduct, and

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[1] 35 U.S.C. § 285 provides that:

> The court in exceptional cases may award reasonable attorney fees to the prevailing party.

any other factors contributing to imposition of punitive sanctions or to fair allocation of the burdens of litigation." *Delta-X Corp. v. Baker Hughes Prod. Tools, Inc.*, 984 F.2d 410, 414 (Fed. Cir. 1993). In light of these standards, and based on the record as a whole, the instant case is not one that is "exceptional" under 35 U.S.C. § 285. Even were this a case presenting "exceptional" circumstances warranting an award of attorneys' fees, the Court would not exercise its discretion to do so.[2]

Accordingly, defendants' motion for an award of attorneys' fees is DENIED.

The Clerk is directed to send copies of this order to all counsel of record.

/s/ T.S. Ellis, III
T.S. ELLIS, III
United States District Judge

Alexandria, Virginia
April 30, 1998

[2] It is worth noting too that defendants' preliminary estimate of attorneys' fees of $6,000,000 is plainly excessive, if not absurd.